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NSC BRIEFING

29 December 1960

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INDONESIA

- I. Bloc economic and military aid commitments to Indonesia now total \$977,000,000 with roughly 60 percent intended for economic assistance and 40 percent for military.
  - A. Less than one-third of this amount has been obligated and only about \$250,000,000 drawn, the latter chiefly for military equipment.
  - B. Foreign Minister Subandrio and the army and air chiefs have just left for Moscow to negotiate for accelerated delivery and for better terms on some of the military equipment already contracted for.
    1. The Indonesian air force also hopes to purchase approximately \$100,000,000 worth of modern Soviet aircraft and equipment.
- II. The Indonesian economy, improved from its low of 1957-58, still far from good.
  - A. Over-all trade figures are expected to be the best in the past three years and the end-of-year deficit may be the lowest since 1956.
  - B. The pace of inflation is reduced; the free market rate of the rupiah, although four times its official rate of 45 to the dollar, is now far better than this time last year.
  - C. Discouraging indicators, however, are poor estate production--the backbone of Indonesian exports--fluctuating export values, and continuing difficulties with internal distribution.

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1. The launching of the new Eight-Year Development Plan in 1961 will probably bring further inflation.
- III. President Sukarno continues key figure on Indonesian scene.
- A. Sukarno derives his power from "1945 Constitution" emphasizing the executive, and from national state of emergency under which he acts as Supreme Commander of the War Administration.
- IV. Indonesian Communist party, largest party in the country, continues to support Sukarno and, in turn, is used by him as a counterweight to the generally anti-Communist army, thereby preserving his own preeminent position.
- A. Communists hold approximately 25 percent of seats in rubber stamp legislative bodies, political and economic advisory councils, and in an inactive but potentially important National Front.
  - B. Sukarno apparently wants to include Communists in cabinet but so far army has persuaded him against doing so.
- V. Djakarta's claim to Netherlands New Guinea has been promoted by Sukarno and Communists into emotional issue of primary national importance.
- A. Sukarno has used New Guinea claim to justify latest military purchases from Moscow.
  - B. Indonesia unlikely to resort to large-scale force in immediate future to acquire New Guinea, but will continue to infiltrate small groups to foment dissatisfaction over Dutch rule, thus buttressing Indonesia's claim to territory.

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